

**TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE**



**FISCAL NOTE**

**HB 689 - SB 897**

February 26, 2013

**SUMMARY OF BILL:** Effective July 1, 2013, exempts from state and local sales and use tax any water used to aid in the cleaning, sanitizing, or disinfecting of poultry or poultry products, poultry production houses, or machinery or equipment used to remove or dispose of wastes generated from the raising of poultry.

**ESTIMATED FISCAL IMPACT:**

**Decrease State Revenue – Net Impact – \$162,200**

**Decrease Local Revenue – Net Impact – \$66,200**

**Assumptions:**


- Based on the 2007 U.S. Department of Agriculture Census Data, and assuming an annual growth rate of one percent, Tennessee poultry and egg production farms are estimated to expend \$10,093,082 on utilities in 2014.
- Twenty five percent, or \$2,523,271 ( $\$10,093,082 \times 25.0\%$ ), of total utility costs are attributed to water used to aid in the cleaning, sanitizing, or disinfecting of poultry or poultry products, poultry production houses, or machinery or equipment used to remove or dispose of waste generated from the raising of poultry.
- The current state sales tax is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent.
- The recurring decrease in state sales tax revenue as a result of the proposed exemption is estimated to be \$176,629 ( $\$2,523,271 \times 7.0\%$ ); the recurring decrease in local option sales tax revenue as a result of the proposed exemption is estimated to be \$63,082 ( $\$2,523,271 \times 2.5\%$ ).
- Pursuant to Tenn. Code Ann. § 67-6-103(a)(3)(A), local governments receive 4.603 percent of state sales tax revenue as state-shared sales tax revenue.
- Pursuant to Tenn. Code Ann. § 67-6-103(q), no portion of revenue derived from the 0.5 percent sales tax rate increase, from 5.5 percent to 6.0 percent (effective April 1, 1992), or the 1.0 percent sales tax rate increase, from 6.0 percent to 7.0 percent (effective July 15, 2002), shall be distributed to local government.
- The effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617% [ $(5.5\%/7.0\%) \times 4.603\%$ ].

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- The recurring decrease in local revenue pursuant to the state-shared allocation as a result of the proposed exemption is estimated to be \$6,389 ( $\$176,629 \times 3.617\%$ ).
- The net recurring decrease in state sales tax revenue as a result of the proposed exemption is estimated to be \$170,240 ( $\$176,629 - \$6,389$ ).
- The total recurring decrease in local sales tax revenue as a result of the proposed exemption is estimated to be \$69,471 ( $\$63,082 + \$6,389$ ).
- Fifty percent of tax savings will be spent in the economy on other sales-taxable goods and services.
- Recurring tax savings are estimated to be \$239,711 ( $\$176,629 + \$63,082$ ).
- The recurring increase in state sales tax revenue as a result of 50 percent of tax savings being spent in the economy is estimated to be \$8,390 ( $\$239,711 \times 50.0\% \times 7.0\%$ ).
- The recurring increase in local sales tax revenue as a result of 50 percent of tax savings being spent in the economy is estimated to be \$2,996 ( $\$239,711 \times 50.0\% \times 2.5\%$ ).
- The recurring increase in local revenue pursuant to the state-shared allocation as a result of 50 percent of tax savings being spent in the economy is estimated to be \$303 ( $\$8,390 \times 3.617\%$ ).
- The net recurring increase in state sales tax revenue as a result of 50 percent of tax savings being spent in the economy is estimated to be \$8,087 ( $\$8,390 - \$303$ ).
- The total recurring increase in local sales tax revenue as a result of 50 percent of tax savings being spent in the economy is estimated to be \$3,299 ( $\$2,996 + \$303$ ).
- The net recurring decrease in state revenue as a result of this bill is estimated to be \$162,153 ( $\$170,240 - \$8,087$ ).
- The net recurring decrease in local revenue as a result of this bill is estimated to be \$66,172 ( $\$69,471 - \$3,299$ ).

## **CERTIFICATION:**

The information contained herein is true and correct to the best of my knowledge.



Lucian D. Geise, Executive Director

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